New Jersey Natural Gas

2016 ANNUAL REPORT

NEW JERSEY NATURAL GAS

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GLOSSARY OF KEY TERMS

AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
The Company	New Jersey Natural Gas Company
CR&R	Commercial Realty & Resources Corp.
Credit Facility	The $250 million unsecured committed credit facility expiring in May 2019
CWIP	Construction Work In Progress
Dths	Dekatherms
EDA	New Jersey Economic Development Authority
EDA Bonds	Collectively, Series 2011A, Series 2011B and Series 2011C Bonds issued by the EDA
EDECA	Electric Discount and Energy Competition Act
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
FMB	First Mortgage Bonds
FRM	Financial Risk Management
GAAP	Generally Accepted Accounting Principles of the United States
HCCTR	Health Care Cost Trend Rate
ICE	Intercontinental Exchange
IRS	Internal Revenue Service
ISDA	The International Swaps and Derivatives Association
ITC	Investment Tax Credit
LIBOR	London Inter-Bank Offered Rate
LNG	Liquefied Natural Gas
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service, Inc.
Mortgage Indenture	The Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement between the Company and U.S. Bank National Association dated as of September 1, 2014
NAESB	The North American Energy Standards Board
NGV	Natural Gas Vehicles
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJR	New Jersey Resources Corporation
NJR Service	NJR Service Corporation
NJRCEV	NJR Clean Energy Ventures Corporation
NJRES	NJR Energy Services Company

GLOSSARY OF KEY TERMS (Continued)

NJRHS	NJR Home Services Company
NPNS	Normal Purchase/Normal Sale
NYMEX	New York Mercantile Exchange
O&M	Operation and Maintenance
Old Mortgage Indenture	Indenture of Mortgage and Deed of Trust between the Company and The Bank of New York Mellon Trust Company, N.A., dated April 1, 1952, as amended
OPEB	Other Postemployment Benefit Plans
PEP	Pension Equalization Plan
PIM	Pipeline Integrity Management
RA	Remediation Adjustment
S&P	Standard & Poor's Financial Services, LLC
SAFE	Safety Acceleration and Facility Enhancement
SAVEGREEN	The SAVEGREEN Project®
Savings Plan	Employees' Retirement Savings Plan
SBC	Societal Benefits Charge
SRL	Southern Reliability Link
Steckman Ridge	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP
Superstorm Sandy	Post-Tropical Cyclone Sandy
Trustee	U.S. Bank National Association
U.S.	The United States of America
USF	Universal Service Fund

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Jersey Natural Gas Company

We have audited the accompanying financial statements of New Jersey Natural Gas Company (the "Company"), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of operations, common stock equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Natural Gas Company as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 16, 2016

NEW JERSEY NATURAL GAS COMPANY

STATEMENTS OF OPERATIONS

(Thousands)		
Fiscal years ended September 30,	**2016**	2015
OPERATING REVENUES	**$ 594,346**	$ 781,970
OPERATING EXPENSES		
Gas purchases	**215,849**	355,779
Operation and maintenance	**130,575**	129,774
Regulatory rider expenses	**39,300**	75,779
Depreciation and amortization	**47,828**	43,085
Energy and other taxes	**34,561**	47,506
Total operating expenses	**468,113**	651,923
OPERATING INCOME	**126,233**	130,047
Other income, net	**4,752**	4,318
Interest charges, net of capitalized interest	**19,930**	18,534
INCOME BEFORE INCOME TAXES	**111,055**	115,831
Income tax provision	**34,951**	39,544
NET INCOME	**$ 76,104**	$ 76,287

See Notes to Financial Statements

NEW JERSEY NATURAL GAS COMPANY

STATEMENTS OF CASH FLOWS

(Thousands)		
Fiscal years ended September 30,	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 76,104**	$ 76,287
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	**47,828**	43,085
Allowance for funds used during construction	**(4,375)**	(3,825)
Amortization of deferred charges	**520**	491
Allowance for bad debt expense	**1,243**	2,601
Deferred income taxes	**81,968**	17,139
Manufactured gas plant remediation costs	**(8,106)**	(6,805)
Cost of removal – asset retirement obligation	**(403)**	(1,034)
Contributions to postemployment benefit plans	**(32,820)**	(5,681)
Tax benefit from stock based compensation	**362**	293
Changes in:		
Components of working capital	**(29,168)**	(141)
Other noncurrent assets	**12,848**	48,785
Other noncurrent liabilities	**(350)**	(2,240)
Cash flows from operating activities	**145,651**	168,955
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	**(176,067)**	(140,797)
Cost of removal	**(29,066)**	(28,078)
Withdrawal from (payment to) restricted cash construction fund	**979**	(1,499)
Cash flows (used in) investing activities	**(204,154)**	(170,374)
CASH FLOWS FROM FROM FINANCING ACTIVITIES		
Payments of common stock dividends to parent	**—**	(19,023)
Tax withholding payments related to net settled stock compensation	**628**	368
Proceeds from long-term debt	**125,000**	150,000
Payments of long-term debt	**(12,494)**	(10,980)
Proceeds from short-term debt, net of payments	**(27,000)**	(126,000)
Proceeds from sale-leaseback transaction	**7,107**	7,216
Cash flows from financing activities	**93,241**	1,581
Change in cash and cash equivalents	**34,738**	162
Cash and cash equivalents at beginning of period	**434**	272
Cash and cash equivalents at end of period	**$ 35,172**	$ 434
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	**$ 9,137**	$ (1,814)
Inventories	**(8,819)**	17,081
Recovery of gas costs	**(39,642)**	18,979
Accounts payable and other	**(12,972)**	3,919
Gas purchases payable	**(1,766)**	(703)
Prepaid and accrued taxes, net	**(1,463)**	(10,144)
Customers' credit balances and deposits	**12,043**	(1,521)
Restricted broker margin accounts	**8,173**	(11,941)
Other current assets	**5,984**	(14,065)
Other current liabilities	**157**	68
Total	**$ (29,168)**	$ (141)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	**$ 21,316**	$ 16,037
Income taxes	**$ —**	$ 43,207
Accrued capital expenditures	**$ 7,761**	$ 11,639

See Notes to Financial Statements

NEW JERSEY NATURAL GAS COMPANY

BALANCE SHEETS

ASSETS

(Thousands) September 30,	**2016**	2015
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	**$ 2,107,375**	$ 1,908,024
Construction work in progress	**122,268**	155,553
Total property, plant and equipment	**2,229,643**	2,063,577
Accumulated depreciation and amortization	**(467,702)**	(437,097)
Property, plant and equipment, net	**1,761,941**	1,626,480
CURRENT ASSETS		
Cash and cash equivalents	**35,172**	434
Customer accounts receivable:		
Billed	**30,951**	41,130
Unbilled	**5,744**	6,372
Allowance for doubtful accounts	**(4,627)**	(5,054)
Regulatory assets	**54,286**	24,258
Gas in storage, at average cost	**75,758**	70,209
Materials and supplies, at average cost	**9,085**	5,815
Prepaid taxes	**34,602**	33,333
Derivatives, at fair value	**1,040**	207
Broker margin account	**4,822**	12,990
Other	**23,943**	30,926
Total current assets	**270,776**	220,620
NONCURRENT ASSETS		
Regulatory assets	**441,294**	410,155
Derivatives, at fair value	**75**	—
Other	**50,974**	48,038
Total noncurrent assets	**492,343**	458,193
Total assets	**$ 2,525,060**	$ 2,305,293

See Notes to Financial Statements

BALANCE SHEETS (Continued)

CAPITALIZATION AND LIABILITIES

(Thousands, except for share data)		
September 30,	**2016**	2015
CAPITALIZATION		
Common stock, $5 par value; authorized 4,750,000 shares; outstanding 3,214,923 shares	**$ 16,075**	$ 16,075
Premium on common stock	**11,269**	11,269
Contribution from parent and other	**359,523**	359,523
Retained earnings	**466,018**	389,914
Common stock equity	**852,885**	776,781
Long-term debt	**738,550**	618,595
Total capitalization	**1,591,435**	1,395,376
CURRENT LIABILITIES		
Current maturities of long-term debt	**11,452**	11,138
Short-term debt	**—**	27,000
Gas purchases payable	**18,823**	20,589
Accounts payable and other	**42,874**	59,640
Deferred and accrued taxes	**61**	255
Regulatory liabilities	**9,469**	12,154
New Jersey clean energy program	**14,232**	14,293
Derivatives, at fair value	**4,133**	10,163
Customers' credit balances and deposits	**32,745**	20,701
Total current liabilities	**133,789**	175,933
NONCURRENT LIABILITIES		
Deferred income taxes	**448,427**	366,138
Deferred investment tax credits	**4,619**	4,940
Derivatives, at fair value	**23,459**	5,153
Manufactured gas plant remediation	**172,000**	180,400
Postemployment benefit liability	**80,855**	88,028
Regulatory liabilities	**41,411**	67,533
Asset retirement obligation	**23,521**	16,773
Other	**5,544**	5,019
Total noncurrent liabilities	**799,836**	733,984
Total capitalization and liabilities	**$ 2,525,060**	$ 2,305,293

See Notes to Financial Statements

STATEMENTS OF COMMON STOCK EQUITY

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Contribution from Parent and Other	Retained Earnings	Total
Balance at September 30, 2014	3,215	$ 16,075	$ 11,269	$ 359,230	$ 332,650	$ 719,224
Net income					76,287	76,287
Tax benefit from stock plans				293		293
Cash dividend declared					(19,023)	(19,023)
Balance at September 30, 2015	3,215	16,075	11,269	359,523	389,914	776,781
Net income					**76,104**	**76,104**
Balance at September 30, 2016	**3,215**	**$ 16,075**	**$ 11,269**	**$ 359,523**	**$ 466,018**	**$ 852,885**

See Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

New Jersey Natural Gas is a local natural gas distribution company that provides regulated retail natural gas service to approximately 521,200 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. The Company is the regulated utility subsidiary of NJR and is subject to rate regulation by the BPU. The Company owns approximately 7,132 miles of distribution main, 7,328 miles of service main, 226 miles of transmission main and approximately 541,000 meters. Mains are primarily located under public roads. Where mains are located under private property, the Company has obtained easements from the owners of record.

Additionally, the Company owns and operates two LNG storage plants in Stafford Township, Ocean County; and Howell Township, Monmouth County. The two LNG plants have an aggregate estimated maximum capacity of approximately 170,000 Dths per day and 1 Bcf of total capacity. These facilities are used for peaking natural gas supply and for emergencies. The Company's liquefaction facility is also located on the Howell Township property and allows the Company to convert natural gas into LNG to fill the existing storage tanks. The Howell facility has a truck filling station, which also allows the Company to fill the Stafford facility.

The Company owns four service centers located in Rockaway Township, Morris County; Atlantic Highlands and Wall Township, Monmouth County; and Lakewood, Ocean County. These service centers house storerooms, garages, gas distribution and administrative offices. The Company leases its headquarters and customer service facilities in Wall Township, Monmouth County, a customer service office in Asbury Park, Monmouth County and a service center in Manahawkin, Ocean County. These customer service offices support customer contact, marketing, economic development and other functions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulatory Assets & Liabilities

Under cost-based regulation, regulated utility enterprises generally are permitted to recover their operating expenses and earn a reasonable rate of return on their utility investment.

The Company maintains its accounts in accordance with the FERC Uniform System of Accounts as prescribed by the BPU and in accordance with the *Regulated Operations* Topic of the FASB ASC. As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities on the Balance Sheets. See *Note 3. Regulation,* for a more detailed description of the Company's regulatory assets and liabilities.

Gas in Storage

Gas in storage is reflected at average cost on the Balance Sheets, and represents natural gas and LNG that will be utilized in the ordinary course of business. The Company had 21.3 Bcf and 21.4 Bcf of gas in storage as of September 30, 2016 and 2015, respectively.

Demand Fees

For the purpose of securing storage and pipeline capacity, the Company enters into storage and pipeline capacity contracts, which require the payment of associated demand fees and charges that allow access to a high priority of service in order to maintain the ability to access storage or pipeline capacity, during a fixed time period, which generally ranges from one to 10 years. Many of these demand fees and charges are based on established tariff rates as established and regulated by FERC. These charges represent commitments to pay storage providers and pipeline companies for the priority right to transport and/or store natural gas utilizing their respective assets.

Demand fees of $77.8 million and $80.5 million for fiscal years ended September 30, 2016 and 2015, respectively, which are net of fees received for capacity release, are included in its weighted average cost of gas. The demand charges are expensed as a component of gas purchases in the Statements of Operations based on BGSS sales and recovered as part of its gas commodity component of its BGSS tariff.

Derivative Instruments

Derivative instruments associated with natural gas commodity contracts are recorded in accordance with the *Derivatives and Hedging* Topic of ASC 815, under which the Company records the fair value of derivatives, held as assets and liabilities. ASC 815 also provides for a NPNS election for physical commodity contracts that meet the definition of a derivative and require physical delivery that is in the normal course of business. Effective January 1, 2016, the Company prospectively applies this normal scope exception on a case by case basis to physical commodity contracts and when it does, it accounts for these contracts on an accrual basis as the underlying physical natural gas is delivered. Realized and unrealized gains and/or losses on the Company's derivatives used to economically hedge its natural gas supply obligations, as well as its exposure to interest rate variability are recoverable as a component of its BGSS tariff rate. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability on the Balance Sheets.

See *Note 4. Derivative Instruments* for additional details regarding natural gas trading and hedging activities.

Fair values of exchange-traded futures and options contracts are based on unadjusted, quoted prices in active and published markets. The Company's Treasury Lock agreement is valued using observable, quoted interest rate data and pricing models to estimate fair values that are compared against counterparty provided valuations for reasonableness. Fair values are subject to change in the near term and reflect management's best estimate based on a variety of factors. Estimating fair values of instruments that do not have quoted market prices requires management's judgment in determining amounts that could reasonably be expected to be received from, or paid to, a third party in settlement of the instruments. These amounts could be materially different from amounts realized in an actual sale transaction.

Revenues

Revenues from the sale of natural gas to customers of the Company are recognized in the period that gas is delivered and consumed by customers, including an estimate for unbilled revenue.

The Company records unbilled revenue for natural gas services. Natural gas sales to individual customers are based on meter readings, which are performed on a systematic basis throughout the month. At the end of each month, the amount of natural gas delivered to each customer after the last meter reading through the end of the respective accounting period is estimated, and the Company recognizes unbilled revenues related to these amounts. The unbilled revenue estimates are based on estimated customer usage by customer type, weather effects, unaccounted-for gas and the most current tariff rates.

Gas Purchases

The Company's tariff includes a component for BGSS, which is designed to allow the Company to recover the cost of natural gas through rates charged to its customers and is typically revised on an annual basis. As part of computing its BGSS rate, the Company projects its cost of natural gas, net of supplier refunds, the impact of hedging activities and credits from non-firm sales and transportation activities. The Company subsequently recovers or credits the difference, if any, of actual costs compared with those included in current rates. Any underrecoveries or overrecoveries are either credited to customers or deferred and, subject to BPU approval, reflected in the BGSS rates in subsequent years.

Income Taxes

The Company computes income taxes using the asset and liability method, whereby deferred income taxes are generally determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. See *Note 9. Income Taxes.*

ITCs have been deferred and are being amortized as a reduction to the tax provision over the average lives of the related equipment in accordance with regulatory treatment.

The Company is included in the consolidated tax return of NJR. The Company calculates the provision for income taxes by using a separate return method. Under this method, the Company is assumed to file a separate return with the tax authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from NJR. The Company’s current provision is the amount of tax payable or refundable on the basis of a hypothetical, current-year separate return. The Company provides deferred taxes on temporary differences and on any carryforwards that we could claim on our hypothetical return and assesses the need for a valuation allowance on the basis of our projected separate return results. Any difference between the tax provision or benefit computed by the Company under the separate return method and payments to be made to or received from NJR for tax expense are settled through intercompany payments.

Capitalized and Deferred Interest

The Company's base rates include the ability to recover AFUDC on its CWIP. For all of the Company's construction projects, an incremental cost of equity is recoverable during periods when the Company's short-term debt balances are lower than its CWIP.

Capitalized amounts associated with the debt and equity components of the Company's AFUDC are recorded in utility plant on the Balance Sheets. Corresponding amounts for the debt component is recognized in interest expense and in other income for the equity component on the Statements of Operations and include the following for the fiscal years ended September 30:

(Thousands)	**2016**	2015
AFUDC:		
Debt	**$ 5,009**	$ 2,472
Equity	**4,375**	3,825
Total	**$ 9,384**	$ 6,297
Weighted average interest rate	**5.06%**	4.63%

Pursuant to a BPU order, the Company is permitted to recover carrying costs on uncollected balances related to SBC program costs, which include NJCEP, RA and USF expenditures. See *Note 3. Regulation*. The SBC interest rate changes each September based on the August 31 seven-year constant maturity Treasury rate plus 60 basis points. The rate was 2.05 percent and 2.54 percent for the fiscal years ended September 30, 2016 and 2015, respectively. Accordingly, other income included $54,000 and $61,000 for the fiscal years ended September 30, 2016 and 2015, respectively.

Sales Tax Accounting

Sales tax that is collected from customers and presented in both operating revenues and operating expenses on the Statements of Operations was $29.8 million and $42.9 million for the fiscal years ended September 30, 2016 and 2015, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on deposit and temporary investments with maturities of three months or less, and excludes restricted cash of $1.6 million and $2.5 million as of September 30, 2016 and 2015, respectively, related to escrow balances for utility plant projects, which is recorded in other current and noncurrent assets on the Balance Sheets. On November 9, 2015, $1 million was removed from escrow and was no longer restricted due to the completion of a utility plant project. The remaining $1.5 million was classified as noncurrent.

Property, Plant and Equipment

Regulated property, plant and equipment is stated at original cost. Costs include direct labor, materials and third-party construction contractor costs, AFUDC and certain indirect costs related to equipment and employees engaged in construction. Upon retirement, the cost of depreciable regulated property, plus removal costs less salvage, is charged to accumulated depreciation with no gain or loss recorded.

Depreciation is computed on a straight-line basis over the useful life of the assets for financial statement purposes and using rates based on the estimated average lives of the various classes of depreciable property for the Company. The composite rate of depreciation used was 2.32 percent of average depreciable property in fiscal 2016 and 2.31 percent in fiscal 2015. Effective October 1, 2016, the overall depreciation rate is 2.4 percent, as settled in the base rate case.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property, plant and equipment was comprised of the following as of September 30, 2016 and 2015:

(Thousands) Property Classifications	Estimated Useful Lives	2016	2015
Distribution facilities	38 to 74 years	**$ 1,823,672**	$ 1,695,898
Transmission facilities	35 to 56 years	**292,433**	289,599
Storage facilities	34 to 47 years	**78,238**	41,669
All other property	5 to 35 years	**35,300**	36,411
Total property, plant and equipment		**2,229,643**	2,063,577
Accumulated depreciation and amortization		**(467,702)**	(437,097)
Property, plant and equipment, net		**$ 1,761,941**	$ 1,626,480

Impairment of Long-Lived Assets

The Company reviews the carrying amount of an asset for possible impairment whenever events or changes in circumstances indicate that such amount may not be recoverable.

No impairments were identified for the fiscal years ended September 30, 2016 and 2015.

Customer Accounts Receivable and Allowance for Doubtful Accounts

The Company's receivables consist of natural gas sales and transportation services billed to residential, commercial, industrial and other customers. The Company evaluates its accounts receivable and, to the extent customer account balances are outstanding for more than 60 days, establishes an allowance for doubtful accounts. The allowance is based on a combination of factors including historical collection experience and trends, aging of receivables, general economic conditions in the Company's distribution or sales territories, and customer specific information. The Company writes-off customers' accounts once it is determined they are uncollectible.

Loans Receivable

The Company provides interest-free loans, with terms ranging from two to 10 years, to customers that elect to purchase and install certain energy efficient equipment in accordance with its BPU approved SAVEGREEN program. The loans are recognized at net present value on the Balance Sheets. Refer to *Note 5. Fair Value* for a discussion of the Company's fair value measurement policies and level disclosures. The Company has recorded $7.8 million and $6.2 million in other current assets and $39.5 million and $36.2 million in other noncurrent assets as of September 30, 2016 and 2015, respectively, on the Balance Sheets, related to the loans.

The Company's policy is to establish an allowance for doubtful accounts when loan balances are in arrears for more than 60 days. During fiscal 2016 and 2015 there was no allowance for doubtful accounts established related to SAVEGREEN loans receivable.

Asset Retirement Obligations

The Company recognizes a liability for its AROs based on the fair value of the liability when incurred, which is generally upon acquisition, construction, development and/or through the normal operation of the asset. Concurrently, the Company also capitalizes an asset retirement cost by increasing the carrying amount of the related asset by the same amount as the liability. In periods subsequent to the initial measurement, the Company is required to recognize changes in the liability resulting from the passage of time (accretion) or due to revisions to either timing or the amount of the originally estimated cash flows to settle the conditional ARO.

Pension and Postemployment Plans

The Company has two noncontributory defined pension plans covering eligible employees, including officers. Benefits are based on each employee's years of service and compensation. The Company's funding policy is to contribute annually to these plans at least the minimum amount required under the Employee Retirement Income Security Act of 1974, as amended, and not more than can be deducted for federal income tax purposes. Plan assets consist of equity securities, fixed-income securities and short-term investments. In fiscal 2016 and 2015, the Company had no minimum funding requirements. The Company made a discretionary contribution of $30 million during the first quarter of fiscal 2016 to improve the funded status of the pension plans based on then current actuarial assumptions, which included the adoption of the most recent mortality table. The Company made no discretionary contributions to the pension plans in fiscal 2015.

The Company also provides two primarily noncontributory medical and life insurance plans for eligible retirees and dependents. Medical benefits, which make up the largest component of the plans, are based upon an age and years-of-service vesting schedule and other plan provisions. Funding of these benefits is made primarily into Voluntary Employee Beneficiary Association trust funds. The Company contributed $2.7 million and $5.2 million in aggregate to these plans in fiscal 2016 and 2015, respectively.

Recently Adopted Updates to the Accounting Standards Codification

Income Taxes

In November 2015, the FASB issued ASU 2015-17, an amendment to ASC 740, Income Taxes, to simplify the balance sheet presentation of deferred income taxes. The update requires entities to present all deferred tax assets and liabilities as noncurrent. The Company elected to early adopt the amended guidance effective October 1, 2015, and applied the new provisions retrospectively.

Accordingly, the following amounts on the Balance Sheets, as of September 30, 2015, have been adjusted:

(Thousands)	**As Previously Reported**	**Effect of Change**	**As Adjusted**
Assets			
Deferred taxes (current)	$ 25,767	$ (25,767)	$ —
Total current assets	$ 246,387	$ (25,767)	$ 220,620
Total assets	$ 2,331,060	$ (25,767)	$ 2,305,293
Capitalization and Liabilities			
Deferred income taxes	$ 391,905	$ (25,767)	$ 366,138
Total noncurrent liabilities	$ 759,751	$ (25,767)	$ 733,984
Total capitalization and liabilities	$ 2,331,060	$ (25,767)	$ 2,305,293

There was no additional impact to the Statements of Operations or the Statements of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, an amendment to ASC 718, *Compensation - Stock Compensation*, which simplifies several aspects of the accounting for employee share-based compensation, including the accounting for income taxes and forfeitures. The new guidance also increased the threshold for tax withholding to the maximum statutory rate, as applicable, to maintain equity classification and amended the classification of certain tax transactions within the statement of cash flows.

The Company elected to early adopt the amended guidance during the third quarter of fiscal 2016 and applied the new provisions as of the beginning of the year of adoption on a retrospective or prospective basis depending on each amendment's transition requirements. As such, effective October 1, 2015, the Company is recognizing forfeitures as they occur and is recognizing excess tax benefits (deficiencies) as a component of income tax (benefit) provision in its Statements of Operations on a prospective basis. Accordingly, upon adoption, the Company recognized $362,000 in excess tax benefits during fiscal 2016.

The following table presents the adjustments to the Statements of Cash Flows for the fiscal year ended September 30, 2015:

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Cash flows from operating activities			
Tax benefit from stock based compensation	$ —	$ 293	$ 293
Other noncurrent liabilities	$ (1,872)	$ (368)	$ (2,240)
Net cash flows provided from operating activities	$ 169,030	$ (75)	$ 168,955
Cash flows (used in) financing activities			
Tax benefit from stock options exercised	$ 293	$ (293)	$ —
Tax withholding payments related to net settled stock compensation	$ —	$ 368	$ 368
Cash flows (used in) financing activities	$ 1,506	$ 75	$ 1,581

There was no impact to the Balance Sheets upon adoption of the new guidance.

Other Recent Updates to the Accounting Standards Codification

Revenue

In May 2014, the FASB issued ASU No. 2014-09, and added Topic 606, *Revenue from Contracts with Customers*, to the ASC. ASC 606 supersedes ASC 605, *Revenue Recognition*, as well as most industry-specific guidance, and prescribes a single, comprehensive revenue recognition model designed to improve financial reporting comparability across entities, industries, jurisdictions and capital markets. In August 2015, the FASB issued ASU No. 2015-14, which defers the implementation of the new guidance for one year. The new guidance will become effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year. The Company continues to evaluate the provisions of ASC 606, however, based on the review of customer contracts to date, it is not anticipating a material impact to its financial position, results of operations or cash flows upon adoption. Accordingly, the Company expects to transition to the new guidance using the modified retrospective approach.

Interest

In April 2015, the FASB issued ASU No. 2015-03, an amendment to ASC 835, *Interest - Imputation of Interest,* which simplifies the presentation of debt issuance costs by requiring them to be presented on the balance sheet as a deduction from the carrying amount of the liability. The amendments do not affect the recognition and measurement guidance for debt issuance costs. In August 2015, the FASB issued ASU No. 2015-15, which clarified that the amendments contained within ASU No. 2015-03 do not require companies to modify their accounting for costs incurred in obtaining revolving credit facilities. The new guidance will become effective for the Company's fiscal year ending September 30, 2017, and interim periods within that year, on a retrospective basis, and will not have a material impact to its financial position, results of operations or cash flows upon adoption.

Intangibles

In April 2015, the FASB issued ASU No. 2015-05, an amendment to ASC 350, *Intangibles - Goodwill and Other - Internal-Use Software,* which clarifies the accounting for fees in a cloud computing arrangement. The amendments provide guidance on how an entity should evaluate the accounting for fees paid in a cloud computing arrangement to determine whether an arrangement includes the sale or license of software. The new guidance will become effective for the Company's fiscal year ending September 30, 2017, and interim periods within that year, on a prospective basis, and will not impact its financial position, results of operations or cash flows upon adoption.

Inventory

In July 2015, the FASB issued ASU No. 2015-11, an amendment to ASC 330, *Inventory*, which requires entities to measure most inventory "at the lower of cost or net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The guidance is effective for the Company's fiscal year ending September 30, 2018, and interim periods within that year. Upon adoption, the amendments will be applied on a prospective basis. The Company does not expect any material impacts on its financial position, results of operations and cash flows upon adoption.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, an amendment to ASC 825, *Financial Instruments*, to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The standard affects investments in equity securities that do not result in consolidation and are not accounted for under the equity method and the presentation of certain fair value changes for financial liabilities measured at fair value. It also simplifies the impairment assessment of equity investments without a readily determinable fair value by requiring a qualitative assessment. The guidance is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year. Upon adoption, the amendments will be applied on a modified-retrospective basis. The Company has evaluated the amendments and noted that, upon adoption, subsequent changes to the fair value of the Company's available for sale securities will be recorded in the statement of operations as opposed to other comprehensive income. The Company does not expect any other material impacts to its financial position, results of operations or cash flows upon adoption.

In June 2016, the FASB issued ASU 2016-13, an amendment to ASC 326, *Financial Instruments - Credit Losses,* which changes the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model requires recognition based upon an estimation of expected credit losses rather than recognition of losses when it is probable that they have been incurred. The guidance is effective for the Company's fiscal year ending September 30, 2021, and interim periods within that year, with early adoption permitted. The Company is currently evaluating the amendments to understand the impact on its financial position, results of operations and cash flows upon adoption and will apply the new guidance to its trade and loan receivables on a modified retrospective basis.

Leases

In February 2016, the FASB issued ASU 2016-02, an amendment to ASC 842, *Leases*, which provides for a comprehensive overhaul of the lease accounting model and changes the definition of a lease within the accounting literature. Under the new standard, all leases with a term greater than one year will be recorded on the balance sheet. Amortization of the related asset will be accounted for using one of two approaches prescribed by the guidance. Additional disclosures will be required to allow the user to assess the amount, timing and uncertainty of cash flows arising from leasing activities. A modified retrospective transition approach is required for leases existing at the time of adoption. The guidance is effective for the Company's fiscal year ending September 30, 2020, and interim periods within that year, with early adoption permitted. The Company is currently evaluating the amendments to understand the impact on its financial position, results of operations and cash flows upon adoption.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, an amendment to ASC 230, *Statement of Cash Flows*, which addresses eight specific cash flow issues for which there has been diversity in practice. The guidance is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year with early adoption permitted. Upon adoption, the amendments will be applied on a retrospective basis. The Company is currently evaluating the amendments to understand the impact on its statements of cash flows upon adoption.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies during the reporting period. On a monthly basis, the Company evaluates its estimates, including those related to the calculation of the fair value of derivative instruments, debt, unbilled revenues, allowance for doubtful accounts, provisions for depreciation and amortization, regulatory assets and liabilities, income taxes, pensions and other postemployment benefits, contingencies related to environmental matters and litigation. AROs are evaluated as often as needed. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

The Company has legal, regulatory and environmental proceedings during the normal course of business that can result in loss contingencies. When evaluating the potential for a loss, the Company will establish a reserve if a loss is probable and can be reasonably estimated, in which case it is the Company's policy to accrue the full amount of such estimates. Where the information is sufficient only to establish a range of probable liability, and no point within the range is more likely than any other, it is the Company's policy to accrue the lower end of the range. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates.

Subsequent Events

To the best of our knowledge and belief, no other material events have occurred subsequent to September 30, 2016, through December 16, 2016, the date the financial statements were issued that require consideration as adjustments to or disclosures in the aforementioned financial statements, except as disclosed in *Note 3. Regulation and Note 6. Debt.*

3. REGULATION

The EDECA is the legal framework for New Jersey's public utility and wholesale energy landscape. The Company is required, pursuant to a written order by the BPU under EDECA, to open its residential markets to competition from third-party natural gas suppliers. Customers can choose the supplier of their natural gas commodity in the Company's service territory.

As required by EDECA, the Company's rates are segregated into two primary components, the commodity portion, which represents the wholesale cost of natural gas, including the cost for interstate pipeline capacity to transport the gas to the Company's service territory, and the delivery portion, which represents the transportation of the commodity portion through the Company's gas distribution system to the end-use customer. The Company does not earn utility gross margin on the commodity portion of its natural gas sales. The Company earns utility gross margin through the delivery of natural gas to its customers, regardless of whether it or a third-party supplier provides the wholesale natural gas commodity.

Under EDECA, the BPU is required to audit the state's energy utilities every two years. The primary purpose of the audit is to ensure that utilities and their affiliates offering unregulated retail services do not have an unfair competitive advantage over nonaffiliated providers of similar retail services. A combined competitive services and management audit of the Company commenced in August 2013. A draft management audit report was accepted by the BPU on July 23, 2014, for public comment. To date, the Company has been implementing all audit recommendations with the approval of BPU Staff and is waiting for final BPU approval.

The Company is subject to cost-based regulation, therefore, it is permitted to recover authorized operating expenses and earn a reasonable return on its utility capital investments based on the BPU's approval. The impact of the ratemaking process and decisions authorized by the BPU allows the Company to capitalize or defer certain costs that are expected to be recovered from its customers as regulatory assets and to recognize certain obligations representing amounts that are probable future expenditures as regulatory liabilities in accordance with accounting guidance applicable to regulated operations.

The Company's recovery of costs is facilitated through its base rates, BGSS and other regulatory tariff riders. The Company is required to make an annual filing to the BPU by June 1 of each year for review of its BGSS, CIP and various other programs and related rates. Annual rate changes are requested to be effective at the beginning of the following fiscal year. In addition, the Company is also permitted to request approval of certain rate or program changes on an interim basis. All rate and program changes are subject to proper notification and BPU review and approval.

Base Rate Case

On November 13, 2015, the Company filed a base rate case petition with the BPU, requesting an increase in base rates in the amount of $147.6 million, which was revised on July 20, 2016, to $112.9 million. On September 23, 2016, the BPU's decision and order approved the following, effective October 1, 2016:

- an increase in base rates in the amount of $45 million. The base rate increase includes a return on common equity of 9.75 percent, a common equity ratio of 52.5 percent and an increase in the overall depreciation rate from 2.34 percent to 2.4 percent;
- the rate mechanism for recovery of SAFE I capital investments and a five-year extension of SAFE II, effective October 1, 2016. The estimated cost for SAFE II, excluding AFUDC, is approximately $200 million and related costs to be recovered on an accelerated basis are approximately $157.5 million. The remaining $42.5 million in capital expenditures will be requested for recovery in a future base rate case. As a condition of the extension approval, the Company is required to file a base rate case no later than November 2019;
- rate recovery of NJ RISE capital investment costs through June 30, 2016, and the filing for recovery of future NJ RISE capital investment costs to be recovered, will occur in conjunction with SAFE II, commencing with the rate recovery filing to be submitted in March 2017;
- recovery of the Company's NGV and LNG plant investments; and
- recovery of other costs previously deferred in regulatory assets over seven years, as described further below.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Regulatory assets and liabilities included on the Balance Sheets as of September 30, are comprised of the following:

(Thousands)	**2016**	2015
Regulatory assets-current		
Conservation Incentive Program	**$ 36,957**	$ —
New Jersey Clean Energy Program	**14,232**	14,293
Derivatives, net	**3,097**	9,965
Total current	**$ 54,286**	$ 24,258
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	**$ 19,595**	$ 18,886
Liability for future expenditures	**172,000**	180,400
Deferred income and other taxes	**20,273**	17,460
Derivatives, net	**23,384**	5,153
SAVEGREEN	**25,208**	26,882
Postemployment and other benefit costs	**157,027**	140,636
Deferred Superstorm Sandy costs	**15,201**	15,201
Other noncurrent assets	**8,606**	5,537
Total noncurrent	**$ 441,294**	$ 410,155
Regulatory liability-current		
Overrecovered gas costs	**$ 9,469**	$ 6,987
Conservation Incentive Program	**—**	5,167
Total current	**$ 9,469**	$ 12,154
Regulatory liabilities-noncurrent		
Cost of removal obligation	**$ 30,549**	$ 54,880
New Jersey Clean Energy Program	**10,657**	11,956
Other noncurrent liabilities	**205**	697
Total noncurrent	**$ 41,411**	$ 67,533

Recovery of regulatory assets is subject to BPU approval, and therefore, if there are any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to income in the period of such determination. The BPU's decision and order approving the Company's new base rates resulted in no changes to the recovery of the Company's regulatory assets.

Conservation Incentive Program

The CIP permits the Company to recover utility gross margin variations related to customer usage resulting from customer conservation efforts and mitigates the impact of weather on its gross margin. Such utility gross margin variations are recovered in the year following the end of the CIP usage year, without interest, and are subject to additional conditions, including an earnings test, a revenue test and an evaluation of BGSS related savings.

New Jersey Clean Energy Program

The NJCEP is a statewide program that encourages energy efficiency and renewable energy. Funding amounts are determined by the BPU's Office of Clean Energy and all New Jersey utilities are required to share in the annual funding obligation. The current NJCEP program is for the State of New Jersey's fiscal year ending June 2017. The Company recovers the costs associated with its portion of the NJCEP obligation, through its NJCEP rider.

Derivatives

Derivatives are utilized by the Company to manage the price risk associated with its natural gas purchasing activities and to participate in certain BGSS incentive programs. The gains and losses associated with the Company's derivatives are recoverable through its BGSS, as noted above, without interest. See *Note 4. Derivatives*.

Environmental Remediation Costs

The Company is responsible for the cleanup of certain former gas manufacturing facilities. Actual expenditures are recovered from customers, with interest, over seven year rolling periods, through a RA rate rider. Recovery for the Company's estimated future liability will be requested and/or recovered when actual expenditures are incurred. See *Note 13. Commitments and Contingencies*.

Deferred Income Taxes

In 1993, the Company adopted the provisions of ASC 740, *Income Taxes*, which changed the method used to determine deferred tax assets and liabilities. Upon adoption, the Company recognized a transition adjustment and corresponding regulatory asset representing the difference between the Company's existing deferred tax amounts compared with the deferred tax amounts calculated in accordance with the change in method prescribed by ASC 740. The Company recovers the regulatory asset associated with these tax impacts through future base rates, without interest.

SAVEGREEN

The Company administers certain programs that supplement the state's NJCEP and that allow the Company to promote clean energy to its residential and commercial customers, as described further below. The Company will recover related expenditures and a weighted average cost of capital through a tariff rider, as approved by the BPU, over a two to 10-year period depending upon the specific program incentive.

Postemployment and Other Benefit Costs

Postemployment and Other Benefit Costs represents the Company's underfunded postemployment benefit obligations that the Company began recognizing in fiscal 2006, as a result of changes in the accounting provisions of ASC 715, *Compensation and Benefits*, as well as a $2.9 million fiscal 2010 tax charge resulting from a change in the deductibility of federal subsidies associated with Medicare Part D, both of which are deferred as regulatory assets and are recoverable, without interest, in base rates. In the September 23, 2016 base rate case decision and order, the BPU approved the recovery of the tax charge over a seven-year amortization period. See *Note 10. Employee Benefit Plans*.

Deferred Superstorm Sandy Costs

In October 2012, portions of the Company's distribution system incurred significant damage as a result of Superstorm Sandy. The Company filed a petition with the BPU in November 2012 requesting deferred accounting for uninsured incremental O&M costs associated with its restoration efforts, which was approved in May 2013. On October 22, 2014, the BPU approved, as prudent and reasonable, the deferred O&M storm costs. The deferred Superstorm Sandy costs were approved for recovery through the Company's new base rates effective October 1, 2016, over a seven-year amortization period.

Other Regulatory Assets

Other regulatory assets consists primarily of deferred costs associated with certain components of the Company's SBC, as discussed further below, and the Company's compliance with federal and state mandated PIM provisions. The Company's related costs to maintain the operational integrity of its distribution and transmission main are recoverable, subject to BPU review and approval. Through September 30, 2016, the Company was limited to recording a regulatory asset associated with PIM that did not exceed $700,000 per year. In addition, to the extent that project costs were lower than the approved PIM annual expense of $1.4 million, the Company recorded a regulatory liability to be refunded as a credit to customers' gas costs when the net cumulative liability exceeded $1 million. As of September 30, 2016, the Company recorded $4.4 million of PIM in other regulatory assets. The deferred PIM costs were approved for recovery through the Company's new base rates effective October 1, 2016, over a seven-year amortization period. As of October 1, 2016, the Company will no longer defer any costs associated with PIM.

Overrecovered Gas Costs

The Company recovers its cost of gas through the BGSS rate component of its customers' bills. The Company's cost of gas includes the purchased cost of the natural gas commodity, fees paid to pipelines and storage facilities, adjustments as a result of BGSS incentive programs, and hedging transactions. Overrecovered gas costs represent a regulatory liability that generally occurs when the Company's BGSS rates are higher than actual costs and requests approval to be returned to customers including interest, when applicable, in accordance with the Company's approved BGSS tariff. Conversely, underrecovered gas costs generally occurs during periods when the Company's BGSS rates are lower than actual costs, in which case the Company records a regulatory asset and requests amounts to be recovered from customers in the future.

Cost of Removal Obligation

The Company accrues and collects for cost of removal in base rates on its utility property, without interest. The Company's regulatory liability represents customer collections in excess of actual expenditures, which the Company will return to customers as a reduction to depreciation expense until it is depleted by November 2019 when the Company will file the next required base rate case.

The following is a description of certain regulatory proceedings during fiscal 2015 and 2016:

BGSS and CIP

BGSS rates are normally revised on an annual basis. In addition, to manage the fluctuations in wholesale natural gas costs, the Company has the ability to make two interim filings during each fiscal year to increase residential and small commercial customer BGSS rates on a self-implementing and provisional basis. The Company is also permitted to refund or credit back a portion of the commodity costs to customers when the natural gas commodity costs decrease in comparison to amounts projected or to amounts previously collected from customers. Concurrent with the annual BGSS filing, the Company files for an annual review of its CIP. In May 2014, the BPU approved the continuation of the CIP program with no expiration date; however, it will be subject to review in a future rate filing in 2017. The Company's annual BGSS and CIP filings are summarized as follows:

- June 2014 BGSS/CIP filing — In April 2015, the BPU approved the existing BGSS rate and the reduction in CIP rates, effective October 2014, which resulted in a 4.3 percent decrease to an average residential heat customer's bill. Additionally, in October 2014, the Company implemented a decrease to its BGSS price, which resulted in a 5 percent decrease to the average residential heat customer's bill.

- June 2015 BGSS/CIP filing — On February 24, 2016, the BPU approved the Company's proposal to continue its existing BGSS rate and to increase its CIP rates resulting in a .08 percent increase to the average residential heat customer's bill effective October 2015. The Company also provided bill credits to residential and small commercial customers from November 2015 through February 2016, as a result of the decline in the wholesale price of natural gas, which totaled $61.6 million.

- June 2016 BGSS/CIP filing — The Company filed a petition with the BPU to increase its CIP rates resulting in an 8.2 percent increase to the average residential heat customer's bill and to decrease its BGSS rate for residential and small commercial customers resulting in a 5.5 percent decrease to the average residential heat customer's bill, effective October 1, 2016, which was approved by the BPU on a provisional basis on September 23, 2016. This petition also included proposed bill credits to residential and small commercial customers during the months of November 2016 through February 2017, as a result of a decline in the wholesale price of natural gas. On September 16, 2016, the Company notified the BPU that the estimated bill credits will be approximately $48 million and will result in a 10.6 percent decrease to the average residential heat customer's bill.

BGSS Incentive Programs

The Company is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include off-system sales, capacity release, storage incentive programs and the FRM program (through October 31, 2015). The Company is permitted to annually propose a process to evaluate and discuss alternative incentive programs, should performance of the existing incentives or market conditions warrant re-evaluation. In March 2015, the Company filed a petition with the BPU to continue its existing BGSS Incentive Programs. On October 15, 2015, the BPU issued an order approving the continuation of the BGSS Incentive Programs with modification to the storage incentive program, beginning with the 2015 storage injection period, and termination of the FRM Program, effective November 1, 2015.

SAVEGREEN

SAVEGREEN conducts home energy audits and provides various grants, incentives and financing alternatives, which are designed to encourage the installation of high efficiency heating and cooling equipment and other energy efficiency upgrades to promote energy efficiency incentives to its residential and commercial customers while stimulating state and local economies through the creation of jobs. Depending on the specific initiative or approval, the Company recovers costs associated with the programs over a two to 10-year period through a tariff rider mechanism. As of September 30, 2016, the BPU has approved total SAVEGREEN investments of approximately $219.3 million, of which, $136.6 million in grants, rebates and loans has been provided to customers, with a total annual recovery of approximately $20 million. The recovery includes a weighted average cost of capital that ranges from 6.69 percent, with a return on equity of 9.75 percent, to

7.76 percent, with a return on equity of 10.3 percent. SAVEGREEN investments and costs are filed with the BPU on an annual basis and include the following:

- 2014 SAVEGREEN filings — In March 2015, the BPU approved the June 2014 filing to maintain the existing rate. In July 2015, the BPU approved the Company's petition allowing the extension of SAVEGREEN through July 31, 2017, with an additional $75.2 million in investments.

- 2015 SAVEGREEN filing — On January 27, 2016, the BPU approved the July 2015 filing to maintain its existing rate.

- 2016 SAVEGREEN filings — On May 26, 2016, the Company submitted its filing to maintain its existing recovery rate, which was approved by the BPU on October 31, 2016. On April 15, 2016, the Company filed a petition with the BPU to extend its current program, which was set to expire on July 31, 2017, to December 31, 2018, which was approved by the BPU on June 29, 2016.

Societal Benefits Clause

The SBC is comprised of three primary riders that allow the Company to recover costs associated with USF, which is a permanent statewide program for all natural gas and electric utilities for the benefit of income-eligible customers, MGP remediation, and the NJCEP. The Company has submitted the following filings to the BPU, which includes a report of program expenditures incurred each program year:

- 2014 SBC filing — In May 2015, the BPU approved a decrease to the Company's SBC rate, resulting in a 3.3 percent decrease to the average residential heat customer's bill, effective June 2015, and approved the recovery of the Company's MGP expenditures incurred through June 2014. The rate includes a reduction in the SBC RA factor to $8.5 million annually and the NJCEP factor to $16.3 million annually.

- 2015 SBC filings — In September 2015, the BPU approved the June 2015 annual USF compliance filing decreasing the statewide USF rate, resulting in a .6 percent decrease to the average residential heat customer's total bill, effective October 2015. On December 24, 2015, the Company filed an SBC petition with the BPU to increase the RA factor, to decrease the NJCEP factor and to request approval of its remediation expenses incurred through June 30, 2015, resulting in an overall decrease of .8 percent to the average residential heat customer's bill. On June 29, 2016, the BPU approved the Company's request to modify its rates as proposed, effective July 9, 2016, with recovery of $9.4 million annually related to the SBC RA factor.

- 2016 SBC filing — On June 23, 2016, the Company submitted its annual USF compliance filing proposing to increase the statewide USF rate, resulting in a .2 percent increase to the average residential heat customer's bill, effective October 1, 2016, which was approved by the BPU on September 23, 2016.

Infrastructure Programs

The Company has significant annual capital expenditures associated with the management of its natural gas distribution and transmission system, including new utility plant for customer growth and its associated PIM and infrastructure programs. The Company continues to implement BPU-approved infrastructure projects that are designed to enhance the reliability of the Company's gas distribution system, including SAFE and NJ RISE.

SAFE

In October 2012, the BPU approved the Company's petition to implement SAFE I, investing up to $130 million, exclusive of AFUDC, over a four-year period to replace portions of the Company's gas distribution unprotected steel, cast iron infrastructure and associated services in order to improve the safety and reliability of the gas distribution system. The rate mechanism for recovery of SAFE I capital investments and a five-year extension of SAFE II were approved through the Company's base rate case, effective October 1, 2016. The estimated cost for SAFE II is approximately $200 million, excluding AFUDC and related costs to be recovered are approximately $157.5 million. The remaining $42.5 million in capital expenditures will be requested for recovery in a future base rate case. As a condition of approval of the extension, the Company is required to file a base rate case no later than November 2019.

NJ RISE

In July 2014, the BPU approved NJ RISE, which consists of six capital investment projects estimated to cost $102.5 million over a five-year period, excluding AFUDC, for gas distribution storm hardening and mitigation projects, along with incremental depreciation expense. On October 15, 2015, the BPU approved a base rate increase to recover capital costs through July 2015, resulting in a .07 percent increase to the average residential heat customer's bill, effective November 1, 2015, and earned a weighted average cost of capital of 6.74 percent, including a return on equity of 9.75 percent. NJ RISE investments through June 30, 2016 were approved for recovery through the Company's new base rates effective October 1, 2016. Requests for recovery of future NJ RISE capital costs will occur in conjunction with SAFE II, commencing with the rate recovery filing to be submitted in March 2017 with a weighted cost of capital of 6.9 percent, including a return on equity of 9.75 percent.

NGV refueling stations

In June 2012, the BPU approved a pilot program for the Company to invest up to $10 million to build NGV refueling stations. As of September 30, 2016, the Company has opened all three of its NGV stations to the public and the Company's capital investments were approved for recovery through the Company's new base rates, effective October 1, 2016.

SRL

The SRL is an approximate 30-mile, 30-inch transmission main designed to support improved system integrity and reliability in the southern portion of the Company's service territory, estimated to cost between $175 million and $180 million. On January 27, 2016, the BPU issued an order approving the Company's proposed SRL pipeline installation, operation and route selection, as modified by the Company, including specific requirements regarding permitting, safety and integrity assessment. On March 18, 2016, the BPU issued an order designating the SRL route and exempting the SRL from municipal land use ordinances, regulations, permits and license requirements. These two BPU orders have been appealed by third parties. We believe that they will be upheld on appeal.

The capital investment associated with the SRL was initially included for recovery in the Company's base rate case petition, filed with the BPU on November 13, 2015. On May 4, 2016, the Company supplemented its base rate case testimony supporting its November 2015 petition, which amended the accounting treatment and noted that the project would not be completed by December 31, 2016. As construction has not yet commenced, rate treatment for SRL was not included in its new base rates. The Company expects to request rate treatment in a future rate proceeding.

Other Regulatory Initiatives

On May 20, 2016, the Company included a proposal in its base rate case to recover certain capital costs and incremental operation and maintenance costs related to a March 2016 BPU Order regarding new cyber security requirements. On June 2016, the Company's liquefaction project became operational, allowing the Company to convert natural gas into LNG and to fill the Company's existing LNG storage tanks. Costs for this project along with other plant upgrades were approximately $36.5 million. Costs associated with both initiatives were approved for recovery through the Company's new base rates, effective October 1, 2016.

4. DERIVATIVE INSTRUMENTS

The Company is subject to commodity price risk due to fluctuations in the market price of natural gas. To manage this risk, the Company enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas. Accordingly, all of the financial derivative instruments are recorded at fair value on the Balance Sheets. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with derivative instruments, see *Note 5. Fair Value*.

Changes in fair value of the Company's financial commodity derivatives are recorded as a component of regulatory assets or liabilities on the Balance Sheets. The Company elects NPNS accounting treatment on all physical commodity contracts that the Company entered into on or before December 31, 2015, and accounts for these contracts on an accrual basis. Accordingly, physical natural gas purchases are recognized in regulatory assets or liabilities on the Balance Sheets when the contract settles and the natural gas is delivered. The average cost of natural gas is amortized in current period earnings based on the current BPU BGSS factor and therm sales. Effective January 1, 2016, on a prospective basis, the Company no longer elects NPNS accounting treatment on all of its physical commodity contracts entered into from January 1, 2016. However, since NPNS is a contract-by-contract election, where it makes sense to do so, we can and may elect certain contracts to be normal. Because the Company recovers these amounts through future BGSS rates as increases or decreases to the cost of natural gas in the Company's tariff for gas service, the changes in fair value of these contracts are deferred as a component of regulatory assets or liabilities on the Balance Sheets.

In an April 2014 BPU Order, the Company received regulatory approval to enter into interest rate risk management transactions related to long-term debt securities. On June 1, 2015, the Company entered into a treasury lock transaction to fix a benchmark treasury rate of 3.26 percent associated with the forecasted $125 million debt issuance expected in May 2018. This forecasted debt issuance coincides with the maturity of the Company's existing $125 million, 5.6 percent notes due May 15, 2018. The change in fair value of the Company's treasury lock agreement is recorded as a component of regulatory assets or liabilities on the Balance Sheets since the Company believes that the market value upon settlement will be recovered in future rates. Upon settlement, any gain or loss will be amortized into earnings over the life of the future underlying debt issuance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fair Value of Derivatives

The following table reflects the fair value of the Company's derivative assets and liabilities recognized on the Balance Sheets as of September 30:

		Fair Value			
		2016		2015	
(Thousands)	Balance Sheet Location	**Asset Derivatives**	**Liability Derivatives**	Asset Derivatives	Liability Derivatives
Physical commodity contracts	Derivatives - current	**$ 235**	**$ 1,154**	$ —	$ —
Financial commodity contracts	Derivatives - current	**805**	**2,979**	207	10,163
	Derivatives - noncurrent	**75**	**386**	—	925
Interest rate contracts	Derivatives - noncurrent	**—**	**23,073**	—	4,228
Total fair value of derivatives		**$ 1,115**	**$ 27,592**	$ 207	$ 15,316

Offsetting of Derivatives

The Company transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty, however the Company's policy is to present its derivative assets and liabilities on a gross basis at the contract level unit of account in the Balance Sheets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following table summarizes the reported gross amounts, the amounts that the Company has the right to offset but elects not to, financial collateral, as well as the net amounts the Company could present in the Balance Sheets but elects not to.

(Thousands)	**Amounts Presented in Balance Sheets** *(1)*	**Offsetting Derivative Instruments** *(2)*	**Financial Collateral Received/Pledged** *(3)*	**Net Amounts** *(4)*
As of September 30, 2016:				
Derivative assets:				
Physical commodity contracts	**$ 235**	**$ (31)**	**$ —**	**$ 204**
Financial commodity contracts	**880**	**(880)**	**—**	**—**
Total assets	**$ 1,115**	**$ (911)**	**$ —**	**$ 204**
Derivative liabilities:				
Physical commodity contracts	**$ 1,154**	**$ (31)**	**$ —**	**$ 1,123**
Financial commodity contracts	**3,365**	**(880)**	**(2,485)**	**—**
Interest rate contracts	**23,073**	**—**	**—**	**23,073**
Total liabilities	**$ 27,592**	**$ (911)**	**$ (2,485)**	**$ 24,196**
As of September 30, 2015:				
Derivative assets:				
Financial commodity contracts	$ 207	$ (207)	$ —	$ —
Derivative liabilities:				
Financial commodity contracts	11,088	(207)	(10,881)	—
Interest rate contracts	4,228	—	—	4,228
Total liabilities	$ 15,316	$ (207)	$ (10,881)	$ 4,228

(1) Derivative assets and liabilities are presented on a gross basis in the balance sheet as the Company does not elect balance sheet offsetting under ASC 210-20.

(2) Offsetting derivative instruments include: transactions with NAESB netting election, transactions held by FCMs with net margining and transactions with ISDA netting.

(3) Financial collateral includes cash balances at FCMs as well as cash received from or pledged to other counterparties.

(4) Net amounts represent presentation of derivative assets and liabilities if the Company were to elect balance sheet offsetting under ASC 210-20.

The Company's derivative contracts are part of the Company's risk management activities that relate to its natural gas purchases, BGSS incentive programs and debt financing. These transactions are entered into pursuant to regulatory approval and, at settlement, the resulting gains and/or losses are payable to or recoverable from utility customers. Any changes in the value of the Company's financial derivatives are deferred in regulatory assets or liabilities resulting in no impact to earnings.

The following table reflects the (losses) gains associated with the Company's derivative instruments as of September 30:

(Thousands)	**2016**	2015
Physical commodity contracts	**$ (15,756)**	$ —
Financial commodity contracts	**(7,984)**	(33,428)
Interest rate contracts	**(18,845)**	(4,228)
Total unrealized and realized (losses) gains	**$ (42,585)**	$ (37,656)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company had the following outstanding long derivatives as of September 30:

	Volume (Bcf)	
	2016	2015
Futures	**23.6**	25.8
Physical	**9.2**	—

Not included in the previous table is the notional amount of $125,000 million related to the Company's treasury lock agreement for both fiscal years ended September 30, 2016 and 2015.

Broker Margin

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on exchange requirements and a variable amount based on a daily mark-to-market. The Company's broker margin account balances as of September 30, 2016 and 2015, are $4.8 million and $13 million, respectively.

Wholesale Credit Risk

The Company is exposed to credit risk as a result of their wholesale marketing activities. As a result of the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (e.g., failed to deliver or pay for natural gas), then the Company could sustain a loss.

The Company monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of current and prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits and exposure, daily communication with traders regarding credit status and the use of credit mitigation measures, such as collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit. Collateral may be requested due to the Company's election not to extend credit or because exposure exceeds defined thresholds. Most of the Company's wholesale marketing contracts contain standard netting provisions. These contracts include those governed by ISDA and the NAESB. The netting provisions refer to payment netting, whereby receivables and payables with the same counterparty are offset and the resulting net amount is paid to the party to which it is due.

Internally-rated exposure applies to counterparties that are not rated by S&P or Moody's. In these cases, the Company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts plus any outstanding wholesale receivable for the value of natural gas delivered and/or financial derivative commodity contract that has settled for which payment has not yet been received. The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for retail natural gas sales and services.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of September 30, 2016.

(Thousands)	**Gross Credit Exposure**
Investment grade	**$ 2,753**
Noninvestment grade	**154**
Internally rated investment grade	**24**
Internally rated noninvestment grade	**7,699**
Total	**$ 10,630**

Conversely, certain of the Company's derivative instruments are linked to agreements containing provisions that would require cash collateral payments from the Company if certain events occur. These provisions vary based upon the terms in individual counterparty agreements and can result in cash payments if the Company's credit rating were to fall below its current level. The Company's credit rating, with respect to S&P, reflects the overall corporate credit profile. Specifically, most, but not all, of these additional payments will be triggered if the Company's debt is downgraded by the major credit agencies, regardless of investment grade status. In addition, some of these agreements include threshold amounts that would result in additional collateral payments if the values of derivative liabilities were to exceed the maximum values provided for in relevant counterparty agreements. Other provisions include payment features that are not specifically linked to ratings, but are based on certain financial metrics.

Collateral amounts associated with any of these conditions, are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on September 30, 2016 and 2015, is $23.1 million and $4.2 million, respectively, for which the Company had not posted collateral. If all the thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on September 30, 2016 and 2015, the Company would have been required to post an additional $23.1 million to its counterparties for 2016, and $4.2 million for 2015. These amounts differ from the respective net derivative liabilities reflected on the Balance Sheets because the agreements also include clauses, commonly known as “Rights of Offset,” that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted, as previously discussed.

5. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and cash equivalents, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. The estimated fair value of long-term debt, including current maturities and excluding capital leases, as applicable as of September 30, are as follows:

(Thousands)	**2016**	2015
Carrying value [(1)]	**$ 707,845**	$ 582,845
Fair market value	**$ 731,615**	$ 584,240

(1) Excludes capital leases of $42.2 million and $46.9 million as of September 30, 2016 and 2015, respectively.

The Company utilizes a discounted cash flow method to determine the fair value of its debt. Inputs include observable municipal and corporate yields, as appropriate, for the maturity of the specific issue and NJR's credit rating. As of September 30, 2016 and 2015, the Company discloses its debt within Level 2 of the fair value hierarchy.

Fair Value Hierarchy

The Company applies fair value measurement guidance to its financial assets and liabilities, as appropriate, which include financial and physical contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, authoritative accounting literature prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets. The Company's Level 1 assets and liabilities include exchange traded natural gas futures and options contracts, listed equities, and money market funds. Exchange traded futures and options contracts include all energy contracts traded on the NYMEX/CME and ICE that the Company refers internally to as basis swaps, fixed swaps, futures and financial options that are cleared through a FCM.

Level 2 Other significant observable inputs such as interest rates or price data, including both commodity and basis pricing that is observed either directly or indirectly from publications or pricing services. The Company's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts and derivatives that are initially valued using observable quotes and are subsequently adjusted to include time value, credit risk or estimated transport pricing components for which no basis price is available. Level 2 financial derivatives consist of transactions with non-FCM counterparties (basis swaps, fixed swaps and/or options). The Company's treasury lock is also considered Level 2 as valuation is based on quoted market interest and swap rates as inputs to the valuation model. Inputs are verifiable and do not require significant management judgment. For some physical commodity contracts, the Company utilizes transportation tariff rates that are publicly available and that it considers to be observable inputs that are equivalent to market data received from an independent source. There are no significant judgments or adjustments applied to the transportation tariff inputs and no market perspective is required. Even if the transportation tariff input were considered to be a “model,” it would still be considered to be a Level 2 input as the data is:

- widely accepted and public;
- non-proprietary and sourced from an independent third party; and
- observable and published.

These additional adjustments are generally not considered to be significant to the ultimate recognized values.

Level 3 Inputs derived from a significant amount of unobservable market data include the Company's best estimate of fair value and are derived primarily through the use of internal valuation methodologies.

The Company's derivatives portfolio consists mainly of physical natural gas and exchange traded futures and options contracts, in addition to treasury lock agreements used to hedge interest rate risk. The Company primarily uses the market approach and its policy is to use actively quoted market prices when available. The principal market for its physical and financial derivative transactions is the natural gas wholesale market, therefore, the primary source for its price inputs is the ICE and CME exchanges.

When the Company determines fair values for its physical and treasury lock derivatives, measurements are adjusted, as needed, for credit risk associated with its counterparties, as well as its own credit risk. The Company determines these adjustments by using default probabilities that correspond to the applicable S&P issuer ratings.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(Thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
As of September 30, 2016:				
Assets:				
Physical commodity contracts	$ —	$ 235	$ —	$ 235
Financial commodity contracts	880	—	—	880
Other [1]	34,062	—	—	34,062
Total assets at fair value	**$ 34,942**	**$ 235**	$ —	**$ 35,177**
Liabilities:				
Physical commodity contracts	$ —	$ 1,154	$ —	$ 1,154
Financial commodity contracts	3,365	—	—	3,365
Interest rate contracts	—	23,073	—	23,073
Total liabilities at fair value	**$ 3,365**	**$24,227**	**$ —**	**$ 27,592**
As of September 30, 2015:				
Assets:				
Financial derivative contracts - natural gas	$ 207	$ —	$ —	$ 207
Total assets at fair value	$ 207	$ —	$ —	$ 207
Liabilities:				
Financial derivative contracts - natural gas	$ 11,088	$ —	$ —	$ 11,088
Interest rate contracts	—	4,228	—	4,228
Total liabilities at fair value	$ 11,088	$ 4,228	$ —	$ 15,316

(1) Includes various money market funds.

6. DEBT

The following table presents the long-term debt of the Company as of September 30:

(Thousands)			**2016**	2015
Long-Term Debt				
First mortgage bonds:		Maturity date:		
4.50%	Series II	August 1, 2023	**$ 10,300**	$ 10,300
4.60%	Series JJ	August 1, 2024	**10,500**	10,500
4.90%	Series KK	October 1, 2040	**15,000**	15,000
5.60%	Series LL	May 15, 2018	**125,000**	125,000
Variable	Series MM	September 1, 2027	**9,545**	9,545
Variable	Series NN	August 1, 2035	**41,000**	41,000
Variable	Series OO	August 1, 2041	**46,500**	46,500
3.15%	Series PP	April 15, 2028	**50,000**	50,000
3.58%	Series QQ	March 13, 2024	**70,000**	70,000
4.61%	Series RR	March 13, 2044	**55,000**	55,000
2.82%	Series SS	April 15, 2025	**50,000**	50,000
3.66%	Series TT	April 15, 2045	**100,000**	100,000
3.63%	Series UU	June 21, 2046	**125,000**	—
Capital lease obligation-Buildings		June 1, 2021	**14,262**	16,700
Capital lease obligation-Meters		Various dates	**27,895**	30,188
Less: Current maturities of long-term debt			**(11,452)**	(11,138)
Total long-term debt			**$ 738,550**	$ 618,595

Annual long-term debt redemption requirements, excluding capital leases, as of September 30, are as follows (in millions):

September 30,	Redemption
2017	$ —
2018	$ 125.0
2019	$ —
2020	$ —
2021	$ —
Thereafter	$ 582.8

First Mortgage Bonds

The Company and Trustee, entered into the Mortgage Indenture, dated September 1, 2014, which secures all of the outstanding First Mortgage Bonds issued under the Old Mortgage Indenture. The Mortgage Indenture provides a direct first mortgage lien upon substantially all of the operating properties and franchises of the Company (other than excepted property, such as cash on hand, choses-in-action, securities, rent, natural gas meters and certain materials, supplies, appliances and vehicles), subject only to certain permitted encumbrances. The Mortgage Indenture contains provisions subjecting after-acquired property (other than excepted property and subject to pre-existing liens, if any, at the time of acquisition) to the lien thereof.

The Company's Mortgage Indenture no longer contains a restriction on the ability of the Company to pay dividends. New Jersey Administrative Code 14:4-4.7 states that a public utility cannot issue dividends if its equity to total capitalization ratio falls below 30 percent without regulatory approval. As of September 30, 2016, the Company's equity to total capitalization ratio is 53.2 percent and has the ability to issue up to $849 million of FMB under the terms of the Mortgage Indenture.

In December 2016, the Company decided to call and purchase, in lieu of redemption, three FMB by January 2017. As a result, the $10.3 million, 4.5 percent Series II, the $10.5 million, 4.6 percent Series JJ and the $15 million, 4.9 percent Series KK bonds will be reclassified to current maturities of long-term debt on the Balance Sheets during the first quarter of fiscal 2017.

The Company has variable rate EDA Bonds with a total principal amount of $97 million and maturity dates ranging from September 2027 to August 2041. The EDA Bonds are not subject to optional tender while they bear interest at a LIBOR index rate. As of September 30, 2016, the interest rate on the EDA Bonds was .92 percent.

On April 15, 2013, the Company issued $50 million of 3.15 percent senior secured notes due April 15, 2028, in the private placement market pursuant to a note purchase agreement entered into on February 8, 2013. Interest is payable semi-annually. The proceeds were used to refinance short-term debt and will fund capital expenditure requirements.

On March 13, 2014, the Company issued $70 million of 3.58 percent senior notes due March 13, 2024, and $55 million of 4.61 percent senior notes due March 13, 2044, secured by FMB in the private placement market pursuant to a note purchase agreement entered into on February 7, 2014. The proceeds were used to pay down short-term debt and redeem the Company's $60 million, 4.77 percent private placement bonds on March 15, 2014.

On May 27, 2014, the Company redeemed the $12 million, 5 percent Series HH bonds, which were callable as of December 1, 2013.

On April 15, 2015, the Company issued $50 million of 2.82 percent senior notes due April 15, 2025, and $100 million of 3.66 percent senior notes due April 15, 2045, secured by FMB in the private placement market pursuant to a note purchase agreement entered into on February 12, 2015. The proceeds of the notes were used for general corporate purposes, to refinance or retire debt and to fund capital expenditure requirements.

On June 21, 2016, the Company entered into a Note Purchase Agreement, under which the Company issued $125 million of its 3.63 percent senior notes due June 21, 2046. The notes are secured by an equal principal amount of the Company's FMB (series UU) issued under the Company's Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures.

Sale-Leasebacks

The Company's lease agreement for its headquarters building expires in June 2021, subject to an option by the Company to renew the lease for additional five-year terms a maximum of four times. The present value of the agreement's minimum lease payments is reflected as both a capital lease asset and a capital lease obligation, which are included in utility plant and long-term debt, respectively, on the Balance Sheets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company received $7.1 million and $7.2 million for fiscal 2016 and 2015, respectively, in connection with the sale-leaseback of its natural gas meters. The Company records a capital lease obligation that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration of the lease. During fiscal 2016 and 2015, the Company exercised early purchase options with respect to meter leases by making final principal payments of $1.9 million and $768,000, respectively. The Company continues to evaluate this sale-leaseback program based on current market conditions.

Contractual commitments for capital lease payments, as of the fiscal years ended September 30, are as follows (in millions):

(Millions)	Lease Payments
2017	$ 13.2
2018	11.3
2019	8.5
2020	7.7
2021	4.7
Thereafter	1.5
Subtotal	46.9
Less: interest component	(4.7)
Total	**$ 42.2**

Short-term Debt

A summary of the Company's credit facilities, which require commitment fees on the unused amounts, as of September 30, are as follows:

(Thousands)	**2016**	2015
Bank revolving credit facilities (1)	**$ 250,000**	$ 250,000
Commercial paper outstanding at end of period	**$ —**	$ 27,000
Weighted average interest rate at end of period	**—%**	0.20%
Amount available at end of period (2)	**$ 249,269**	$ 222,269

(1) Committed credit facilities, which require commitment fees of .075 percent on the unused amounts.

(2) Letters of credit outstanding total $731,000 as of both September 30, 2016 and 2015, which reduces amount available by the same amount.

The Company has a $250 million, five-year, revolving, unsecured credit facility expiring in May 2019. The Credit Facility permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of $15 million increments up to a maximum of $50 million at the lending banks' discretion.

As of September 30, 2016, the Company has two letters of credit outstanding for $731,000. The Company's letters of credit are used as collateral for remediation projects and expire in August 2017. These letters of credit reduce the amount available under the Company's committed credit facility by the same amount. The Company does not anticipate that these letters of credit will be drawn upon by the counterparty, and will be renewed as necessary.

7. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans

The Company has two trusteed, noncontributory defined benefit retirement plans covering eligible regular represented and nonrepresented employees with more than one year of service. Defined benefit plan benefits are based on years of service and average compensation during the highest sixty consecutive months of employment. The Company also provides postemployment medical and life insurance benefits to employees who meet certain eligibility requirements.

All non-represented employees hired on or after October 1, 2009, and represented employees hired on or after January 1, 2012, are covered by an enhanced defined contribution plan instead of the defined benefit plan. Participation in the postemployment medical and life insurance plan was also frozen to new employees as of the same dates.

The Company maintains an unfunded nonqualified PEP that was established to provide employees with the full level of benefits as stated in the qualified plan without reductions due to various limitations imposed by the provisions of federal income tax laws and regulations. There were no plan assets in the nonqualified plan due to the nature of the plan.

The Company's funding policy for its pension plans is to contribute at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. In fiscal 2016 and 2015, the Company had no minimum funding requirements. The Company made no discretionary contributions to the pension plans in fiscal 2015. The Company made a discretionary contribution of $30 million during the first quarter of fiscal 2016 to improve the funded status of the pension plans based on current actuarial assumptions. The Company does not expect to be required to make additional contributions to fund the pension plans over the following two fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents.

There are no Federal requirements to pre-fund OPEB benefits. However, the Company is required to fund certain amounts due to regulatory agreements with the BPU. The Company contributed $2.7 million and $5.2 million, in fiscal 2016 and 2015, respectively and estimates that it will contribute between $3 million to $5 million over each of the next five years. Additional contributions may be required based on market conditions and changes to assumptions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following summarizes the changes in the funded status of the plans and the related liabilities recognized on the Balance Sheets as of September 30:

	Pension [(1)]		OPEB	
(Thousands)	**2016**	2015	**2016**	2015
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$ 185,186**	$ 165,149	**$ 112,470**	$ 105,128
Service cost	**5,216**	5,001	**3,041**	2,936
Interest cost	**8,198**	7,388	**5,080**	4,714
Plan participants' contributions [(2)]	**40**	39	**104**	60
Actuarial loss	**20,252**	12,974	**12,277**	2,883
Benefits paid, net of retiree subsidies received	**(5,768)**	(5,365)	**(4,076)**	(3,251)
Benefit obligation at end of year	**$ 213,124**	$ 185,186	**$ 128,896**	$ 112,470
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 153,160**	$ 162,886	**$ 56,236**	$ 56,192
Actual return on plan assets	**22,556**	(4,449)	**5,760**	(1,766)
Employer contributions	**30,026**	88	**2,738**	5,222
Benefits paid, net of plan participants' contributions [(2)]	**(5,728)**	(5,365)	**(3,972)**	(3,412)
Fair value of plan assets at end of year	**$ 200,014**	$ 153,160	**$ 60,762**	$ 56,236
Funded status	**$ (13,110)**	$ (32,026)	**$ (68,134)**	$ (56,234)
Amounts recognized on the Balance Sheets				
Postemployment employee benefit liability				
Current	**$ (26)**	$ (22)	**$ (363)**	$ (210)
Non-current	**(13,084)**	(32,004)	**(67,771)**	(56,024)
Total	**$ (13,110)**	$ (32,026)	**$ (68,134)**	$ (56,234)

(1) Includes the Company's PEP.

(2) Prior to July 1, 1998, employees were eligible to elect an additional participant contribution to enhance their benefits and contributions made during the periods were insignificant.

The Company recognizes a liability for its underfunded benefit plans as required by the *Compensation - Retirement Benefits* Topic of the ASC, and records the offset to regulatory assets.

The following table summarizes the amounts recognized in regulatory assets as of September 30:

	Pension	OPEB
Balance at September 30, 2014	$ 61,794	$ 43,774
Amounts arising during the period:		
Net actuarial (gain)	30,579	9,563
Amounts amortized to net periodic costs:		
Net actuarial (loss)	(5,305)	(2,911)
Prior service (cost) credit	(108)	311
Balance at September 30, 2015	$ 86,960	$ 50,737
Amounts arising during the period:		
Net actuarial loss	**13,696**	**11,274**
Amounts amortized to net periodic costs:		
Net actuarial (loss)	**(5,607)**	**(3,175)**
Prior service (cost) credit	**(108)**	**311**
Balance at September 30, 2016	**$ 94,941**	**$ 59,147**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The amounts in regulatory assets not yet recognized as components of net periodic benefit cost as of September 30 are:

	Pension		OPEB	
(Thousands)	**2016**	2015	**2016**	2015
Net actuarial loss	**$ 94,158**	$ 86,070	**$ 60,561**	$ 52,462
Prior service cost (credit)	**783**	890	**(1,414)**	(1,725)
Total	**$ 94,941**	$ 86,960	**$ 59,147**	$ 50,737

To the extent the unrecognized amounts in regulatory assets exceed 10 percent of the greater of the benefit obligation or the fair value of plan assets, an amortized amount over the average expected future working lifetime of the active plan participants is recognized.

Amounts included in regulatory assets expected to be recognized as components of net periodic benefit cost in fiscal 2017 are as follows:

(Thousands)	Pension	OPEB
Net actuarial loss	**$ 6,799**	**$ 4,210**
Prior service cost (credit)	**108**	**(311)**
Total	**$ 6,907**	**$ 3,899**

The accumulated benefit obligation for the pension plans, including the PEP exceeded the fair value of plan assets. The projected benefit and accumulated benefit obligations and the fair value of plan assets as of September 30, are as follows:

	Pension	
(Thousands)	**2016**	2015
Projected benefit obligation	**$ 213,124**	$ 185,186
Accumulated benefit obligation	**$ 183,855**	$ 158,744
Fair value of plan assets	**$ 200,014**	$ 153,160

The components of the net periodic cost for pension benefits, including the Company's PEP and OPEB costs (principally health care and life insurance) for employees and covered dependents for fiscal years ended September 30, are as follows:

	Pension		OPEB	
(Thousands)	**2016**	2015	**2016**	2015
Service cost	**$ 5,216**	$ 5,001	**$ 3,041**	$ 2,936
Interest cost	**8,198**	7,388	**5,080**	4,714
Expected return on plan assets	**(16,000)**	(13,154)	**(4,757)**	(4,914)
Recognized actuarial loss	**5,607**	5,305	**3,175**	2,911
Prior service cost (credit) amortization	**108**	108	**(311)**	(311)
Net periodic benefit cost recognized as expense	**$ 3,129**	$ 4,648	**$ 6,228**	$ 5,336

The weighted average assumptions used to determine benefit costs during the fiscal year and obligations as of September 30, are as follows:

	Pension		OPEB	
	2016	2015	**2016**	2015
Benefit costs:				
Discount rate	**4.50%**	4.55%	**4.60/4.55%**	4.55%
Expected asset return	**8.75%**	8.75%	**8.75%**	8.75%
Compensation increase	**3.25/3.50%**	3.25%	**3.50%**	3.50%
Obligations:				
Discount rate	**3.96/3.94%**	4.50%	**4.08/4.01%** (1)	4.60/4.55%
Compensation increase	**3.25/3.50%** (1)	3.25/3.50% (1)	**3.50%**	3.50%

(1) Percentages for represented and nonrepresented plans, respectively.

When measuring its projected benefit obligations, the Company uses an aggregate discount rate at which its obligation could be effectively settled. The Company determines a single weighted average discount rate based on a yield curve comprised of rates of return on a population of high quality debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of its expected future benefit payments. Prior to October 1, 2016, the Company used the same assumed rate to measure the service and interest cost components of its net periodic benefit costs. Effective October 1, 2016, the Company changed its method of measuring its service and interest costs from the aggregate approach to a disaggregated, or spot rate, approach. Under the new approach, the Company applies the duration specific spot rates from the full yield curve, as of the measurement date, to each year's future benefit payments. The Company believes that the new method provides for a more precise measurement of its service and interest costs by aligning the timing of the plans' separate future cash flows to the corresponding spot rates on the yield curve. Accordingly, the Company will account for this change prospectively as a change in accounting estimate.

Information relating to the assumed HCCTR used to determine expected OPEB benefits as of September 30, and the effect of a one percent change in the rate, are as follows:

($ in thousands)	**2016**	2015
HCCTR	**8.5%**	6.7%
Ultimate HCCTR	**4.5%**	4.8%
Year ultimate HCCTR reached	**2025**	2022
Effect of a 1 percentage point increase in the HCCTR on:		
Year-end benefit obligation	**23,287**	21,248
Total service and interest cost	**1,746**	1,537
Effect of a 1 percentage point decrease in the HCCTR on:		
Year-end benefit obligation	**(18,466)**	(16,663)
Total service and interest costs	**(1,350)**	(1,209)

The Company's investment objective is a long-term real rate of return on assets before permissible expenses that is approximately 5 percent greater than the assumed rate of inflation as measured by the consumer price index. The expected long-term rate of return is based on the asset categories in which the Company invests and the current expectations and historical performance for these categories.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The mix and targeted allocation of the pension and OPEB plans' assets are as follows:

Asset Allocation	2017 Target Allocation	Assets at September 30, 2016	2015
U.S. equity securities	40%	**38%**	38%
International equity securities	20	**20**	19
Fixed income	40	**42**	43
Total	100%	**100%**	100%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

(Thousands)	Pension	OPEB
2017	$ 6,248	$ 3,365
2018	$ 6,858	$ 3,785
2019	$ 7,424	$ 4,268
2020	$ 8,033	$ 4,775
2021	$ 8,729	$ 5,307
2022 - 2026	$ 55,368	$ 34,626

The Company's OPEB plans provide prescription drug benefits that are actuarially equivalent to those provided by Medicare Part D. Therefore, under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 the Company qualifies for federal subsidies.

The estimated subsidy payments are:

Fiscal Year	Estimated Subsidy Payment *(Thousands)*
2017	$ 213
2018	$ 232
2019	$ 251
2020	$ 277
2021	$ 307
2022 - 2026	$ 2,123

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Pension and OPEB assets held in the master trust, measured at fair value, as of September 30, are summarized as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)			
(Thousands)	**Pension**		**OPEB**	
Assets	**2016**	2015	**2016**	2015
Money market funds	**$ —**	$ —	**$ 9**	$ 2,197
Registered Investment Companies-				
Equity Funds				
Large Cap Index Fund	**62,680**	48,676	**19,131**	17,144
Extended Market Index Fund	**13,007**	9,097	**4,030**	3,694
International Stock	**40,585**	28,731	**12,730**	10,076
Fixed Income Funds				
Emerging Markets	**10,331**	6,813	**3,226**	2,570
Core Fixed Income	**—**	—	**7,030**	7,019
Opportunistic Income	**—**	—	**4,070**	4,104
Ultra Short Duration	**—**	—	**3,998**	3,889
High Yield Bond Fund	**20,793**	15,793	**6,538**	5,543
Long Duration Fund	**52,618**	44,050	**—**	—
Total assets at fair value	**$ 200,014**	$ 153,160	**$ 60,762**	$ 56,236

The Plan had no Level 2 or Level 3 fair value measurements during fiscal 2016 and 2015, and there have been no changes in valuation methodologies as of September 30, 2016. The following is a description of the valuation methodologies used for assets measured at fair value:

Money Market funds: Represents bank balances and money market funds that are valued based on the net asset value of shares held at year end.

Registered Investment Companies: Equity and fixed income funds valued at the net asset value of shares held by the plan at year end as reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Defined Contribution Plan

The Company offers a Savings Plan to eligible employees. As of January 1, 2015, the Company matches 65 percent of participants' contributions up to 6 percent of base compensation. The Company's non-represented employees hired on or after October 1, 2009, and represented employees hired on or after January 1, 2012, are eligible for an employer special contribution of between 3 percent and 4 percent of base compensation, depending on years of service, into the Savings Plan on their behalf. The amount expensed and contributed for the matching provision of the Savings Plan was $1.7 million in fiscal 2016 and $1.6 million in fiscal 2015. The amount contributed for the employer special contribution of the Savings Plan was $146,000 and $91,000 in fiscal 2016 and 2015, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The Company recognizes AROs when the legal obligation to retire an asset has been incurred and a reasonable estimate of fair value can be made. Accordingly, the Company recognizes AROs related to the costs associated with cutting and capping its main and service gas distribution pipelines, which is required by New Jersey law when taking such gas distribution pipeline out of service.

Accretion amounts associated with the Company's ARO are not reflected as an expense, but rather are deferred as a regulatory asset and netted against the Company's regulatory liabilities, for presentation purposes, on the Balance Sheets.

The following is an analysis of the change in the ARO liability for the fiscal years ended September 30:

(Thousands)	**2016**	2015
Balance at October 1	**$ 16,773**	$ 30,495
Accretion	**1,048**	2,075
Additions	**783**	—
Revisions in estimated cash flows	**5,320**	(14,763)
Retirements	**(403)**	(1,034)
Balance at period end	**$ 23,521**	$ 16,773

During fiscal 2016, the Company revised its retirement assumptions to reflect increase in inflation rates and construction costs. These increases, were discounted using the current credit adjusted risk free rate, resulting in an increase of approximately $5.3 million to the ARO liability. The $14.8 million decrease during fiscal 2015, was due primarily to changes in retirement assumptions, which reflected a more accurate projection of settlement of the Company's AROs associated with its main and service assets, and was more in line with the calculated survival curves used in a then recent depreciation study.

Accretion for the next five years is estimated to be as follows:

(Thousands)

Fiscal Years Ended September 30,	**Estimated Accretion**
2017	$ 1,300
2018	1,366
2019	1,428
2020	1,493
2021	1,562
Total	$ 7,149

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. INCOME TAXES

A reconciliation of the United States federal statutory rate of 35 percent to the effective rate from operations for the fiscal years ended September 30, 2016 and 2015 are as follows:

(Thousands)	**2016**	2015
Statutory income tax expense	**$ 38,869**	$ 40,541
Change resulting from:		
State income taxes	**4,327**	6,193
Depreciation and cost of removal	**(5,738)**	(5,149)
Investment tax credits	**(322)**	(322)
AFUDC Equity	**(1,531)**	(1,339)
Other	**(654)**	(380)
Income tax provision	**$ 34,951**	$ 39,544
Effective income tax rate	**31.5%**	34.1%

The income tax provision (benefit) from operations consists of the following:

(Thousands)	**2016**	2015
Current		
Federal	**$ (40,539)**	$ 16,717
State	**(3,664)**	4,918
Deferred		
Federal	**69,155**	13,494
State	**10,321**	4,737
Investment tax credits	**(322)**	(322)
Income tax provision	**$ 34,951**	$ 39,544

The temporary differences, which give rise to deferred tax assets and (liabilities), consist of the following:

(Thousands)	**2016**	2015
Deferred tax assets		
Investment tax credits	**$ 2,500**	$ 2,670
Incentive compensation	**2,134**	2,427
Conservation incentive plan	**—**	2,091
Underrecovered gas costs	**3,831**	2,827
Other	**9,170**	9,398
Total deferred tax assets	**$ 17,635**	$ 19,413
Deferred tax liabilities		
Property related items	**$ (400,157)**	$ (346,964)
Remediation costs	**(7,928)**	(7,641)
Post employment benefits	**(31,634)**	(22,162)
Conservation incentive plan	**(14,953)**	—
Other	**(11,391)**	(8,784)
Total deferred tax liabilities	**$ (466,063)**	$ (385,551)
Total net deferred tax liabilities	**$ (448,428)**	$ (366,138)

The Company's federal income tax returns through fiscal 2013 have either been reviewed by the IRS, or the related statute of limitations has expired and all matters have been settled. Federal income tax returns for periods subsequent to fiscal 2013 are not currently under examination by the IRS.

The State of New Jersey is currently conducting a sales and use tax examination for the period from July 1, 2011 through June 30, 2015. All periods subsequent to those ended September 30, 2012, are statutorily open to examination.

The Company evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. As of September 30, 2016 and 2015, based on its analysis, the Company determined there was no need to recognize any liabilities associated with uncertain tax positions.

In September 2013, the U.S. Department of the Treasury and the IRS released final regulations that provide guidance on applying Section 263(a) of the Internal Revenue Code to amounts paid to acquire, produce, or improve tangible property, as well as rules for materials and supplies. Implementation of these final regulations in September 2013 had no material impact on the Company's results of operations, financial condition or cash flow.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

The Company has entered into long-term contracts, expiring at various dates through October 2033, for the supply, storage and transportation of natural gas. These contracts include current annual fixed charges of approximately $85.6 million at current contract rates and volumes, which are recoverable through BGSS.

Commitments as of September 30, 2016, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2017	2018	2019	2020	2021	Thereafter
Natural gas purchases	$ 85,196	$ 3,814	$ —	$ —	$ —	$ —
Storage demand fees	29,140	22,265	12,841	5,779	—	—
Pipeline demand fees	56,452	90,672	90,821	89,928	87,225	731,182
Total [(1)]	**$ 170,788**	**$ 116,751**	**$ 103,662**	**$ 95,707**	**$ 87,225**	**$ 731,182**

(1) Does not include amounts related to intercompany asset management agreements with NJRES.

As of September 30, 2016, the Company's future minimum lease payments under various operating leases will not be more than $834,000 annually for the next five years and $1.2 million in the aggregate for all years thereafter.

Legal Proceedings

Manufactured Gas Plant Remediation

The Company is responsible for the remedial cleanup of five MGP sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. The Company is currently involved in administrative proceedings with the NJDEP, and participating in various studies and investigations by outside consultants, to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

The Company may recover its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RA approved by the BPU. In May 2015, the BPU approved the Company's September 2014 filing, which requested approval of its MGP expenditures incurred through June 2014, with recovery of $8.5 million annually related to the SBC RA factor with rates effective June 1, 2015. On June 29, 2016, the BPU approved the Company's December 2015 filing, which requested approval of its MGP expenditures incurred through June 30, 2015, with recovery of $9.4 million annually related to the SBC RA factor with rates effective July 9, 2016. As of September 30, 2016, $19.6 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Balance Sheets.

The Company periodically, and at least annually, performs an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. The Company estimated at the time of the most recent review that total future expenditures to remediate and monitor the five MGP sites for which it is responsible, including potential liabilities for Natural Resource Damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites, will range from approximately $143.9 million to $231.6 million. The Company's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. Where it is probable that costs will be incurred, and the information is sufficient to establish a range of possible liability, the Company accrues the most likely amount in the range. If no point within the range is more likely than the other, it is the Company's policy to accrue the lower end of the range. Accordingly, as of September 30, 2016, the Company recorded an MGP remediation liability and a corresponding regulatory asset of $172 million on the Balance Sheets, based on the most likely amount. The actual costs to be incurred by the Company are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

The Company will continue to seek recovery of MGP-related costs through the RA. If any future regulatory position indicates that the recovery of such costs is not probable, the related non-recoverable costs would be charged to income in the period of such determination.

General

On February 24, 2015, a natural gas fire and explosion occurred in Stafford Township, New Jersey as a result of a natural gas leak emanating from an underground pipe. There were no fatalities, although several employees of the Company were injured and several homes were damaged. The Company notified its insurance carrier and believes that any costs associated with the incident, including attorneys' fees, property damage and other losses, will be substantially covered by insurance. The Company believes the resolution of any potential claims associated with the incident will not have a material effect on its financial condition, results of operations or cash flows. As of September 30, 2016, the Company estimates that liabilities associated with claims will range between $600,000 and $3.2 million and has accrued the lower end of the range.

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, the ultimate disposition of these matters will not have a material effect on its financial condition, results of operations or cash flows.

11. RELATED PARTY TRANSACTIONS

The Company participates in various transactions with NJR and other subsidiaries of NJR in the ordinary course of business. These transactions result in either charges or credits to operation and maintenance expense in the Statements of Operations.

The following table summarizes charges from NJR and NJR Service during fiscal 2016 and 2015. Charges from NJR were for various services, including executive management and corporate governance. Charges from NJR Service were primarily related to financial and administrative, legal, human resources, corporate communications, taxation, internal audit and technology services.

(*Thousands*)	**2016**	2015
NJR	**$ 8,616**	$ 7,958
NJR Service	**25,292**	23,798
Total	**$ 33,908**	$ 31,756

The following table summarizes charges from the Company to NJRHS, NJRES, NJR, NJRCEV and CR&R during fiscal 2016 and 2015. Charges to NJRHS were for services related to billing, customer inquiry, payment processing, vehicle fleet maintenance and operating expenses. Charges to NJRES were for administrative services and operating expenses. Charges to NJR were for operating expenses. Charges to NJRCEV were for services related to billing and payment processing and operating expenses. Charges to CR&R were for operating expenses.

(*Thousands*)	**2016**	2015
NJRHS	**$ 5,165**	$ 4,478
NJRES	**549**	908
NJR	**706**	714
NJRCEV	**697**	680
CR&R	**5**	34
Total	**$ 7,122**	$ 6,814

The following table reflects the receivable (payable) the Company had with NJR and other subsidiaries of NJR at September 30, 2016 and 2015, which are included in accounts payable and other on the Balance Sheets:

(*Thousands*)	**2016**	2015
NJR	**$ (726)**	$ (1,702)
NJRES	**71**	53
NJRHS	**(2,385)**	(2,152)
CR&R	**54**	37
NJR Service	**(1,402)**	(1,885)
NJRCEV	**111**	130
Total	**$ (4,277)**	$ (5,519)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In January 2010, the Company entered into a 10-year agreement effective April 1, 2010, for 3 Bcf of firm storage capacity with Steckman Ridge. Under the terms of the agreement, the Company incurs demand fees, at market rates, of approximately $9.3 million annually. These fees are recoverable through the Company's BGSS mechanism and are included in regulatory assets. Demand fees associated with Steckman Ridge were $9.3 million during both the fiscal years ended September 30, 2016 and 2015. As of both September 30, 2016 and 2015, the Company had fees payable to Steckman Ridge in the amount of $775,000.

The Company and NJRES have entered into various asset management agreements. Under the terms of these agreements, the Company releases certain transportation and storage contracts to NJRES. The Company retains the right to purchase market priced gas or fixed price storage gas from NJRES. As of September 30, 2016, the Company and NJRES had three asset management agreements with expiration dates ranging from October 2016 through March 2018. The Company released capacity to NJRES in the amount of $10 million and $19.9 million and purchased natural gas from NJRES in the amount of $11.5 million and $60.8 million during the fiscal years ended September 30, 2016 and 2015, respectively.

The Company has entered into a 15-year transportation precedent agreement for committed capacity of 180,000 Dths per day with PennEast Pipeline Company, LLC, which is estimated to be in service by the first quarter of fiscal 2019.